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SUBJECT: NETHERLANDS - CABLE 1 OF 2: DUTCH POSITIONS IN ADVANCE OF  
G20 SUMMIT

Ref: (A) STATE 17502, (B) THE HAGUE 116, (C) THE HAGUE 62, (D) THE  
HAGUE 60, (E) 08 THE HAGUE 1018, (F) 08 THE HAGUE 981, (G) 08 THE  
HAGUE 910, (H) 08 THE HAGUE 901, (I) 08 THE HAGUE 840, (J) 08 THE  
HAGUE 771

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11. Summary: This is the first of two cables providing post's  
answers to questions in Ref A about Dutch plans for the G20 summit  
and responses to the financial crisis. At the G20 summit, the Dutch  
are likely to recommend using a slightly expanded, more  
representative G20 format to strengthen the ability of existing  
global institutions like the IMF, World Bank, and UN to respond to  
the global financial crisis. At home, the Government of the  
Netherlands (GONL) has implemented a series of measures to shore up  
the financial sector and stimulate an economy now in recession.  
More government action is expected in mid-March (to be reported  
septel). Please see reftels for detailed post reporting on these  
issues. End summary.

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SUMMARY OF KEY ISSUES  
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12. Stimulus: The GONL introduced two economic stimulus packages in  
November 2008 and January 2009. The first package was worth 6  
billion euro (equivalent to one percent of Dutch GNP); the second  
consisted mainly of government guarantees to stimulate lending and  
exports. Highlights of both packages include:

- corporate tax breaks,
- shorter working hours and corresponding unemployment benefits,
- accelerated infrastructure projects,
- extending the current export credit insurance facility to include  
destination countries where no commercial export credit insurance is  
available,
- expanding the existing Growth Facility (in which the GONL  
guarantees up to 50% of bank loans to fast growing, small companies)  
to include larger companies, and
- measures to stimulate the housing market (including risk  
mitigation for property developers and a 100 million euro fund for

projects that make houses more environmentally friendly).

¶3. Stimulus continued: Despite calls from some in parliament and the media for more urgent action, the cabinet of Prime Minister Jan Peter Balkenende has maintained a cautious approach to responding to the financial crisis. In keeping with pragmatic Dutch sensibilities, the cabinet wants to judge the effect of each round of stimulus measures - and avoid increased government spending and a looming budget deficit - before proceeding with additional action. With the economy in recession and an increasingly gloomy forecast for 2009, however, the Prime Minister has announced plans for a third round of stimulus measures in mid-March. The cabinet is consulting with business, labor, and parliament; it will meet in a closed-door session March 5-7 and is expected to announce new measures after March 13. Some measures currently being considered are:

- encouraging wage moderation (Labor Minister Donner has called on unions not to seek any pay raises in their collective labor accord (CAO) negotiations),
  - extending the GONL's current program of shorter working hours and corresponding unemployment benefits,
  - fast-tracking new road and building construction projects, including curtailing environmental appeal procedures, and
  - giving companies a one-month holiday from VAT and wage tax
- Q- giving companies a one-month holiday from VAT and wage tax payments.

¶4. Financial Sector: As the cornerstone of the Dutch economy - and the sector hardest hit by the crisis - the financial sector has been the primary target of GONL recovery efforts. Finance Minister Wouter Bos argues that the financial sector must start to function properly again for the real economy to recover. The GONL has

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employed a range of measures to date, including:

- Emergency bank fund: The GONL created a 20 billion euro emergency fund in September 2008 to provide liquidity to financial institutions. Dutch banking and insurance giant ING accepted a 10 billion euro injection from this fund; insurance and pension fund leader AEGON accepted 3 billion euro; and SNS Real accepted 750 million euro.
- Fortis nationalized: In October 2008, the GONL bought all Dutch operations of Belgian banking conglomerate Fortis for 16.8 billion euro, including its Dutch insurance activities and the Dutch operations of ABN AMRO. (Fortis had purchased parts of ABN AMRO in October 2007.) The GONL now plans to merge the operations of Fortis Bank Nederland and ABN AMRO Bank Nederland over the next two years.
- Bank deposit guarantee: The GONL raised the guarantee on individual and small business bank deposits from 38,000 to 100,000 euro in October 2008. It also agreed to pay for portions of Dutch savings lost in the collapse of Icelandic Internet bank Icesave.
- Inter-bank lending facility: The GONL launched a new 200,000 million euro facility in October 2008 to guarantee inter-bank loans and stimulate inter-bank lending.
- ING bailout: The GONL agreed in January 2008 to guarantee 80 percent of ING's 27.7 billion euro portfolio of U.S. "Alt-A" mortgage-backed securities (in addition to the 10 billion euro capital injection that ING accepted in September 2008).

¶5. Real Economy: The Dutch view their financial sector as the most vulnerable and have therefore focused the bulk of their attention there (see paragraph 4). The open Dutch economy also is heavily dependent on international trade; Dutch exports are expected to decline almost 12 percent in 2009 as a result of the global slowdown. The GONL has extended the current export credit insurance facility to include destination countries where no commercial export credit insurance is available, and it is looking at additional

measures to boost exports.

¶6. Real Economy continued: Regarding WTO commitments, the Dutch remain vocal supporters of concluding the Doha round as soon as possible; they have repeatedly expressed to their U.S. and other interlocutors their hope that the global financial crisis will spur the U.S., China, India, and others to make the concessions necessary to conclude the round. In keeping with their historical posture as avid free-traders, the Dutch remain strong opponents of protectionism. They have called on fellow EU Member States to avoid protectionist measures, and they were highly critical of the proposed "Buy American" provisions in the U.S. Recovery and Reinvestment Act. Prime Minister Balkenende will reiterate these messages on Doha and protectionism at the European Council meeting on March 19-20 and the G20 Summit on April 2.

¶7. Social/Labor Impact: The current unemployment rate of 3.9 percent is expected to climb to 5.5 percent in 2009 and 8.75 percent in 2010, according to the Netherlands Bureau for Economic Policy and Analysis. Although a significant increase for the Netherlands, these rates remain considerably lower than the EU average (expected to be 8.7 percent in 2009). In the Dutch social welfare state, Qto be 8.7 percent in 2009). In the Dutch social welfare state, unemployment and loss of pension benefits are critical social issues. The GONL is spending more to provide unemployment benefits to a larger percentage of the population and ensure major pension providers remain solvent. To date, the GONL's primary tactic against unemployment has been its program to allow companies to offer employees shorter working hours, while providing corresponding unemployment benefits. Prime Minister Balkenende has indicated that the GONL will announce additional measures to combat unemployment - particularly among Dutch youth - and ensure sustainable pension schemes in its third stimulus package in mid-March. Among the measures the GONL is considering are:

- ramping up vocational centers around the country to help with job searches and re-training (something the GONL has already been doing), and
- providing transfer bonuses for workers moving to a new sector, especially health care and education where more labor is needed.

¶8. Dimension of the Crisis: As in most Western countries, the Dutch

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public is resigned to a dismal year for the economy in 2009, with only slight recovery possible in some sectors in 2010. The Dutch also recognize that their economy was well positioned at the start of the crisis (including low inflation and unemployment, and a government budget surplus of 1.3 percent of GDP in 2008); thus they are better positioned than most to weather the storm. The impact of the crisis on Dutch banks remains substantial, though, in large part because of their significant international - particularly U.S. - exposure. Dutch banking giant ING has been a prime case in point; its risky bets on U.S. mortgage-backed securities have forced it to accept GONL support on multiple occasions since September 2008.

¶9. Dimension of the Crisis continued: The Dutch emphasize the need to protect less developed countries (LDCs) and emerging markets from economic fallout. At the G20 summit, the Dutch will stress the importance of loosening credit markets in richer LDCs such as Pakistan. The Dutch argue that these wealthier LDCs have seen credit supplies dry up but are not candidates for the same levels of assistance of which poorer LDCs can take advantage. If richer LDCs like Pakistan are cut off from international money flows, they could slide backward toward increased radicalization. In the Dutch view, regional international banks and credit institutions may be best positioned to assist this stratum of LDCs. Despite GONL support for emerging economies, Prime Minister Balkenende stopped short of supporting the proposed multi-billion euro bailout of Central and Eastern European economies at the March 1 EU preparatory meeting for the G20 summit. Instead, he agreed with German Chancellor Merkel and other EU leaders that additional aid should be given to struggling nations only on a case-by-case basis, and that the criteria for euro membership should not be softened to allow weaker economies to join.

¶10. Role of the G20: Dutch MFA officials outlined what they view as three options for international coordination in addressing the financial crisis. One, the UN, along with the IMF and World Bank, could play the dominant role, continuing business as usual. Two, the international community could create an entirely new body to develop and supervise a new international financial structure. Three, the G20 could act as a high-level catalyst to help coordinate work to reform the UN, IMF, and World Bank into more effective institutions. The Dutch support this third option. The Dutch MFA believes the UN in particular, despite its problems, remains the most legitimate international organization in which to operate. However, if the G20 is to play a constructive role, it must be "slightly expanded" to be more representative of the global economy. For example, the Dutch support the inclusion of the African Development Bank to help represent African nations. (South Africa, according to the Dutch, is too developed economically to act as a viable representative for the rest of the continent.)

¶11. Comment: In promoting a role for an "expanded" G20, the Dutch expect to have a seat at the G20 table, building on the precedent they have set by attending both the November 2008 and April 2009 summits. Although not a G20 member, the Netherlands argued successfully in November that the Dutch play a major role in the international financial system; they have a disproportionate amount at stake in the reform of that system; and their expertise should be utilized. Now, with a second invitation to the April summit, the Dutch hope to have assured their seat at the table for future G20 events related to the global financial crisis. They are therefore supportive of the G20 continuing to play a key role in developing a new financial architecture - especially if the Netherlands is a direct participant. That said, if the Dutch lost their seat at future G20 events and could only provide input through the EU, they would likely still support the G20 process. End comment.

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¶I. OBJECTIVES FOR THE LONDON SUMMIT  
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¶12. Response A: Following are the issues of greatest importance to the Dutch at the April summit. (See paragraphs 9-11 for more detail.)

- the promotion of free trade and open markets,
- a commitment to avoid protectionism,
- the need for international cooperation - perhaps using an expanded

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G20 group - to create a new financial architecture,

- a rapid conclusion of the Doha round, and
- attention to LDCs and emerging economies.

¶13. Response B: In a February 27 op-ed, Prime Minister Balkenende outlined his four objectives for the G20 summit as follows:

- Social Market Economy: The Prime Minister will encourage G20 members to choose "an economy with morality, a social market economy." This includes tighter supervision and more powerful international institutions, in particular to supervise hedge funds and complex financial products more closely, address tax havens, and "put an end to a bonus culture that leads to unacceptable risks." He supports Chancellor Merkel's recommendation for summit attendees to endorse an international "Charter of Sustainable Economic Action" to define the principals of economic conduct of companies and governments.

- Resist Protectionism: The Prime Minister noted the intense pressure on governments to use scarce tax revenues to support their domestic economies, but he cautioned that a "chain reaction of protective measures" would undermine long-term growth prospects.

According to Ministry of Finance officials, Balkenende's main message at the G20 summit will be a "plea for open markets" and a warning against what the Dutch see as rising protectionism in EU Member States, the United States, and many other nations. He also will argue that the financial crisis should give new impetus to successfully conclude the Doha round.

- Solidarity With Poor Countries and Future Generations: Balkenende will seek support for LDCs and emerging economies, particularly wealthier LDCs whose economies are in precarious conditions but who may not normally qualify for emergency assistance. He will stress the "moral obligation" of G20 members to help achieve the Millennium Development Goals. He also will stress the links between innovation, climate change, economic recovery, and future generations. The Prime Minister is an ardent supporter of using innovation and technology to drive economic development; the GONL maintains an entire Innovation Agenda devoted to this cause. At the G20, he will argue that "creating jobs and greening the economy can go hand in hand." Countries should invest now in sustainable innovation and alternative energy sources that will promote greener societies of the future, while creating jobs and boosting economic activity in the short-term.

- Sustainable Government Finances: Balkenende will acknowledge the pressure on government budgets, in particular to maintain public services and pensions. Nonetheless, he will call for prudent fiscal policy, including an adherence by EU Member States to the fiscal discipline required by the European Growth and Stability Pact.

¶14. Response C: See paragraph 13.

¶15. Response D: See paragraphs 10-11.

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II. IMPACTS OF THE GLOBAL FINANCIAL CRISIS  
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¶16. Response E: The Dutch financial sector, which was heavily exposed to U.S. mortgage-backed securities and other toxic assets, has been hard hit by the crisis. The GONL has been forced to respond to a wide range of ensuing financial problems at the banks and pension funds, including dealing with bad assets, injecting more liquidity and fresh capital, guaranteeing deposits, and improving the housing market. See paragraphs 3-4 for more detail on GONL action in each of these areas.

¶17. Response F: To date, two major financial institutions in the Netherlands have required GONL intervention: Belgian-owned Fortis and Dutch-owned ING. In both cases, the predominance of U.S. mortgage-backed securities and other toxic assets on their books was the primary cause of the demise.

- Fortis/ABN AMRO: In October 2008, the GONL bought all Dutch operations of Belgian banking conglomerate Fortis for 16.8 billion euro, including its Dutch insurance activities and the Dutch operations of ABN AMRO. (Fortis had purchased parts of ABN AMRO in

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October 2007.) The GONL now plans to merge the operations of Fortis Bank Nederland and ABN AMRO Bank Nederland over the next two years.

- ING: In September 2008, ING accepted a 10 billion euro capital injection from the GONL to provide needed liquidity. When this did not prove sufficient to restore investor confidence, the GONL agreed in January 2008 to guarantee 80 percent of ING's 27.7 billion euro portfolio of U.S. medium-quality mortgage-backed securities. In return for GONL assistance, ING agreed to earmark part of the capital supplied by the GONL to inject more credit into the Dutch market. Specifically, ING will supply 25 billion euro in credit to consumers and commercial and industrial companies in the Netherlands.

¶18. Response G: See paragraph 4.

[¶](#)19. See septel for the continuation of this report.

GALLAGHER